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DEPARTMENTS

EDITORIAL STAFF

MAJOR ARTICLES

Page

"Accountants have been concerned for many years with the question of how commitments resulting from lease agreements should be reported in financial statements. The possibility exists that APB Opinion No. 5's capitalization provisions as they relate to lease agreements between nonrelated parties may be amended. Paragraph 18 of APB Opinion No. 7, "Accounting for Leases in Financial Statements of Lessors," states: ". . . There continues to be a question as to whether assets and the related obligations should be reflected in the balance sheet for leases other than those that are in substance installment purchases. The Board will continue to give consideration to this question."

EDITOR'S NOTES

The Editor gratefully acknowledges, on behalf of the Editorial Staff and the contributing authors, the laudatory comments generated by the cover and content of the February issue of THE WOMAN CPA in her new green coat. As we extend our efforts to be contemporary with the jet set age, this response from readers is vital to guide our way toward a publication that will help to fill a portion of their technical information and education needs.

We particularly invite constructive criticism and suggestions. Although the majority of manuscripts printed are contributed on a voluntary basis, the Editor will consider approaching qualified persons to write on assigned subjects if specific requests are received from subscribers.

REPRINT POLICY

Contrary to our usual policy of using only original, previously unpublished manuscripts, we are pleased to reprint Eileen T. Corcoran's article, "Reporting of Leases", previously printed in the January/February 1968 issue of the Financial Analysts Journal which is published by The Financial Analysts Federation.

Tax Editor Doris Bosworth in her letter bringing the paper to our attention commented that she felt that the Financial Analysts Journal had a limited circulation and would not reach too many accountants. She also felt that the professionalism exhibited therein by the author was sufficient to waive usual limitations as to length of articles used.

We not only concurred with Miss Bosworth's opinion but felt that the paper merits the prominence which it received in this issue of THE WOMAN CPA. The Editor is of the opinion that THE WOMAN CPA can be an especially effective means of promoting excellence in the accounting profession by adhering to the high standards which this paper represents.

MISS LEE ELLA COSTELLO, CPA

Miss Lee Ella Costello, CPA, President of the American Woman's Society of Certified Public Accountants, 1957-1958, died on January 16, 1968 at her home in Houston, Texas. Miss Costello was one of the first women Certified Public Accountants in Texas. She was a member of the Texas Society of CPA's and the American Institute of Certified Public Accountants. Miss Costello was a partner in an accounting firm until her health failed about four years ago.

ADVERTISING MANAGER

The presidents of the American Woman's Society of Certified Public Accountants and the American Society of Women Accountants, Frances D. Britt, CPA, and Julia J. Kaufman, announce the appointment of Associate Editor Phyllis E. Peters, CPA, to the additional position of Advertising Manager. Concurrent with the publication of an advertising rate card effective in January 1968, Miss Peters has assumed the task of acquiring a limited number of additional advertisers compatible to our publication. Copy of prospective advertisers will be accepted subject to approval of the Editor and Associate Editor.

THE ARMED FORCES

Present estimates by several of the largest CPA firms in the country are that they could lose from one-fourth to one-half of their young staff members at any time because the young men are in the armed force reserves and could be called to duty with little or no advance notice.

From the vantage point of this powder keg on which they are sitting, management of those accounting firms agree that very possibly they will look more and more to women accounting graduates for staff replacements. With this very real need again expanding as it did during World War II, additional efforts would appear to be in order on the part of all accountants to encourage qualified young women to seriously consider accounting from a career standpoint.

"We have long had death and taxes as the two standards of inevitability. But there are those who believe that death is the preferable of the two. 'At least,' as one man said, 'there's one advantage about death; it doesn't get worse every time Congress meets.'"

Dean E. N. Griswold
Harvard Law School

REPORTING OF LEASES

Some Observations on Opinion No. 5 of the Accounting Principles Board

Eileen T. Corcoran, CPA
New York, New York

In September 1964 the Accounting Principles Board, the senior body of the American Institute of CPAs dealing with generally accepted accounting principles, issued its Opinion No. 5, "Reporting of Leases in Financial Statements of Lessee." The Opinion superseded Chapter 14, "Disclosure of Long-Term Leases in Financial Statements of Lessees," of Accounting Research Bulletin No. 43. (Chapter 14 was originally issued in 1949 as ARB 38 by the AICPA's Committee on Accounting Procedure, the predecessor of the Accounting Principles Board.) It is the purpose of this article to comment on certain of the Opinion's provisions and their apparent effectiveness.

APB Opinion No. 5 was issued following publication by the Institute in May 1962 of Accounting Research Study No. 4, *Reporting of Leases in Financial Statements*, by John H. Myers, Ph.D., CPA. The Institute commissioned this study for at least two reasons. First, the use of long-term leases as a financing device to acquire access to real and personal property—a practice frequently referred to as "off-balance-sheet financing"—had increased substantially during the 1950s. Secondly, differences of opinion had arisen within the business community, including the accounting profession, as to how lease commitments relating to real and personal property should be reflected in financial statements.

The differences of opinion had to do primarily with (1) the extent to which leased property, or the right to use it, and related obligations should be reflected as assets and liabilities, and (2) the extent to which noncapitalized lease commitments should be disclosed in financial statements. Accounting for material gains and losses resulting from sales and lease-backs of real and personal property was also involved, but to a lesser degree.

Applicability of Opinion No. 5

APB Opinion No. 5 states: "This Opinion is concerned with accounting for noncancellable leases (or leases cancellable only upon the incurrence of some remote contingency) [of real and personal property except agreements concerning natural resources such as oil, gas, timber and mineral rights] which are material, either individually or as a group for similar types of property, or in the aggregate. The presumption is that if the rights and obligations under such leases are either material in relation to the lessee's net assets or reasonably expected to affect materially the results of operations of future periods, the leases are covered by the provisions of this Opinion."

It is clear from this language that the only ground for exemption of noncancellable leases from the Opinion's provisions (except as regards retroactive capitalization of assets leased under noncancellable agreements in effect at the date of the Opinion's issuance) is immateriality. Thus, the criterion of three years, mentioned in Chapter 14 of ARB 43 as a

Editor's Note—This paper appeared in the January/February 1968 issue of the Financial Analysts Journal and is reprinted here with permission from that Journal.

EILEEN T. CORCORAN, CPA, is a manager in the Accounting and Auditing Standards group at the Home Office of Arthur Young & Company in New York City. A graduate of Hunter College (B.A., 1952), she joined the New York audit staff of AY shortly after graduation, and became a manager in 1962.

Miss Corcoran is a member of the American Institute of Certified Public Accountants, the New York State Society of Certified Public Accountants, the American Woman's Society of Certified Public Accountants and the American Society of Woman Accountants. She has served as a director of the New York Chapter of ASWA for four years working primarily on its monthly publication and in membership recruitment.

possible basis for distinguishing between long- and short-term leases, while perhaps still appropriate for that purpose, has no relevance for noncancellable lease agreements covered by Opinion No. 5. However, a review of 1965 annual reports indicates that this criterion is still being extensively applied to the Opinion's disclosure provisions. In other words, commitments under noncancellable leases expiring within three years of the balance sheet date often are not disclosed.

When a lease agreement meets the criteria of both noncancellability and materiality, the next aspect of the Opinion to be considered is whether the leased asset and related obligation should be reflected in the lessee's balance sheet or whether disclosure of commitments under the lease agreement is sufficient. The standards for capitalization differ as to lease agreements between nonrelated parties and lease agreements between related parties. Each of these subjects, therefore, is discussed separately below.

Capitalization—Nonrelated parties

APB Opinion No. 5 provides that leased property covered by a noncancellable agreement between nonrelated parties should be capitalized, and the related obligation included in financial statements, if the terms of the agreement result in creation of a "material equity" in the property. It states:

> The presence... of either of the two following conditions will usually establish that a lease should be considered to be in substance a purchase:
>
> a. The initial term is materially less than the useful life of the property, and the lessee has the option to renew the lease for the remaining useful life of the property at substantially less than the fair rental value; or
>
> b. The lessee has the right, during or at the expiration of the lease, to acquire the property at a price which at the inception of the lease appears to be substantially less than the probable fair value of the property at the time or times of permitted acquisition by the lessee.
>
> In these cases, the fact that the rental payments usually run well ahead of any reasonable measure of the expiration of the service value of the property, coupled with the options which permit either a bargain purchase by the lessee or the renewal of the lease during the anticipated useful life at bargain rentals, constitutes convincing evidence that an equity in the property is being built up as rental payments are made and that the transaction is essentially equivalent to a purchase.

Thus, when the terms of a lease are such that rental payments are designed to amortize the cost of the depreciable property over its estimated useful life (economic life) and to provide for interest in the outstanding loan, and when the renewal rental or purchase option price, if any, is fair, it will usually be apparent that the leased property should not be accounted for as a purchase. This is because a "material equity" in the leased property is not being created by the lease agreement.

The first step in determining whether or not a "material equity" exists is to ascertain whether the renewal rental or acquisition price is fair. Fair rental value upon renewal of a lease is the rental that the lessee would otherwise have to pay for comparable property during the renewal period under comparable terms (e.g. responsibility for operating expenses). Similarly, fair acquisition value at the time of purchase is the amount that the lessee would have to pay to acquire comparable property at the time purchase of the leased property is permitted.

What must be decided is whether the renewal or acquisition cost specified in the agreement will be so low in relation to a fair price to be paid for the rental or purchase of the leased property that the lessee will have, in effect, an equity in the leased property. Because of the impossibility of forecasting future events, such fair rental or acquisition values are not subject to mathematical determination; only judgmental decisions can be made.

In reaching a decision, however, it may at times be useful to make mathematical calculations. For example, it may be desirable to calculate what cost less accumulated depreciation of the leased property would be at the time renewal or purchase is permitted. Such a calculation will usually be indicative of fair value at a future date (ignoring, appropriately, any changes in price levels), since the function of depreciation is to measure the expiration of the service value of fixed assets over their useful lives. The depreciation method used in making this calculation does not have to be the same depreciation method used by the lessee for other property of the same type.

In many instances the cost of the leased property, if purchased outright, is known. When it is not known, the present value of the future rental payments, excluding payments for operating expenses other than depreciation, can be used instead. This value can be computed through the use of an interest table and an implied rate. An appropriate rate would ordinarily be the interest rate that the company would have to pay if it were to borrow sufficient funds to purchase the leased property outright, the funds to be repaid over the same period as the lease term. For example, assuming the implied rate was 6 1/2 percent compounded annually, the present value of a series of five rental payments of $600,000 each would be $2,493,408, determined as follows:

Present worth of 1 per period*	$4.1556794381
Payment	600,000
Present value of the payments to be made	$2,493,408

*Source: *Financial Compound Interest and Annuity Tables-Fourth Edition.*

Once it has been determined that an equity in the leased property will exist (by comparing renewal rental or acquisition cost with the applicable fair values), the next thing to be determined is whether the equity is material. In judging the materiality of an equity under a lease, the equity can be compared with the aggregate cost of the related property under the lease. (Interest would, of course, be excluded from this determination.) If the equity were very low in relation to the cost—say 1 or 2 percent—the equity would not be material and purchase accounting would not be indicated. On the other hand, if the equity were relatively high in relation to the cost—say 30 or 40 percent—purchase accounting would be indicated. Between these ranges, judgments would be more difficult.

If it is not clear that a "material equity" in the leased property is not being created, APB Opinion No. 5 states that the existence of one or more of the following conditions will tend to indicate that the lease arrangement is in substance a purchase and should be accounted for as such:

a. The property was acquired by the lessor to meet the special needs of the lessee and will probably be usable only for that purpose and only by the lessee.
b. The term of the lease corresponds substantially to the estimated useful life of the property, and the lessee is obligated to pay costs such as taxes, insurance, and maintenance, which are usually considered incidental to ownership.
c. The lessee has guaranteed the obligation of the lessor with respect to the property leased.
d. The lessee has treated the lease as a purchase for tax purposes.

When purchase accounting is indicated, the leased asset and related obligation should initially be included in the lessee's balance sheet at the discounted amount (present value) of future lease rental payments, exclusive of amounts to cover operating expenses other than depreciation. However, if purchase accounting is indicated and the lessee is reluctant to perform it, the necessity of capitalization will depend upon the aggregate materiality of the total asset, liability, and expense effects when viewed in the light of appropriate balance sheet and income statement criteria.

In the balance sheet, the materiality criteria would ordinarily be the asset and debt structure of the lessee, the debt/equity ratio of the lessee, and similar considerations. Assume, for example, two situations wherein purchase accounting is being considered for leased property having a cost (present value of rentals) of $400,000 and the balance sheets of two different companies show the following (without including the lease in question):

	Company	
	X	Y
Property, plant, and equipment less accumulated depreciation	$250,000	$ 90,000,000
Total assets	800,000	150,000,000
Long-term debt	180,000	75,000,000
Stockholders' equity	300,000	60,000,000

It is clear that Company X should capitalize the lease agreement while Company Y is not required to capitalize the lease agreement for a fair presentation of its financial position.

In the income statement, the materiality judgment would ordinarily be based on the effects of the difference in charges to expense under the lease treatment versus those made under the capitalization treatment—i.e., rent versus depreciation and interest. The cumulative effect on stockholders' equity should also be considered. Frequently, especially in well-established companies, the effects on such items are immaterial, whereas the effects on balance sheet ratios are significant.

If unusual circumstances exist, the criteria and methods of determining materiality just mentioned may have to be modified to fit such circumstances.

It may be, however, that when purchase

accounting is indicated but not performed, exemption from capitalization will be temporary. This is because the Opinion's provisions apply not only to an individual lease but to all leases for similar types of property and to leases in the aggregate. Thus, when a subsequent lease resulting in the creation of a "material equity" is entered into, the need for capitalization will depend upon the effects on the financial statements of all leases which result in the creation of "material equities," and not just the effects of the new lease.

When capitalization is required of a lease not previously capitalized, the asset and liability should be recorded at the then present value of the future rental payments plus, in the case of a purchase option, the option price. In other words, the value assigned to the property should not be what its cost less accumulated depreciation would have been if the leased property had been capitalized initially. Comparative financial statements would not be adjusted retroactively to include the previously noncapitalized lease, because there has been no change in the application of accounting principles but only a change in circumstances (i.e., the degree of materiality).

An examination of the 1966 edition of *Accounting Trends and Techniques,* a publication of the American Institute of Certified Public Accountants, which is based upon the reporting practices of 600 publicly-held companies in the United States, as disclosed in their 1965 annual reports, reveals relatively few instances in which lease agreements between non-related parties have resulted in the inclusion of the leased assets and related obligations in balance sheets.

Capitalization—Related parties

APB Opinion No. 5 provides that under certain circumstances property covered by a noncancellable lease agreement between related parties should be capitalized and the related obligation should be included in the lessee's balance sheet. The circumstances cited in the Opinion are that ". . . a primary purpose of ownership of the property by the lessor is to lease it to the lessee and (1) the lease payments are pledged to secure the debts of the lessor or (2) the lessee is able, directly or indirectly, to control or influence significantly the actions of the lessor with respect to the lease." The creation of a "material equity" has no bearing on the question.

APB Opinion No. 5 states that these circumstances are frequently present where (1) the lessor is a subsidiary of the lessee; (2) the lessee and lessor are subsidiaries of the same parent; (3) the lessee and the lessor have common officers, directors, or shareholders to a significant degree; (4) the lessor has been created, directly or indirectly, by the lessee and is substantially dependent on the lessee for its operations; or (5) the lessee or its parent has the right, through options or otherwise, to acquire control of the lessor.

Indirect creation of a related lessor may occur, for example, when the stock of the lessor is owned by a few employees, including officers, of the lessee or their families. However, where the stock of the lessor is in the hands of an outsider (e.g., a financing institution or a pension trust with independent trustees) and the lessee does not have an option to acquire such stock, the lessor and lessee would not ordinarily be considered to be related. The use as lessor of a corporation owned by the pension trust established by the lessee would raise further questions, but the lack of direct or indirect control would appear to exclude such a lessor from the "related" category.

When capitalization is indicated, both the leased asset and the related obligation should be initially included in the lessee's balance sheet in the same manner as an asset and obligation arising from a lease agreement between non-related parties. Again, the only ground for not capitalizing would be immateriality.

Prior to the issuance of APB Opinion No. 5, some companies had formed subsidiaries and/or "dummies" to engage primarily in leasing transactions for the benefit of the parent company and/or its operating subsidiaries. The "dummies" were corporations whose operations were held by individuals nominally independent of the lessee. Frequently, in the preparation of financial statements, the operations of these subsidiaries and/or "dummies" were not consolidated with those of the parent and its other operating subsidiaries. Thus, their debt obligations and related assets were not reflected in the consolidated statements even though the lessee's credit was behind the debt.

To what extent the Opinion's provisions have influenced the way in which companies are now acquiring access to real and personal property through related entities cannot readily be determined from an examination of the public record. Whether or not subsidiaries are used for this purpose should now, however, become an academic question insofar as the preparation of consolidated statements for fiscal periods beginning after December 31, 1966 is concerned. This is because the recently released APB Opinion No. 10, "Omnibus Opinion—1966," contains the following statement: "The Board is of the opinion that, in the preparation of consolidated financial statements. . . , the accounts of all subsidiaries (regardless of when organized or acquired) whose principal business activity is leasing property or facilities to their parents or other affiliates should be consolidated."

This conclusion assumes, of course, that "subsidiaries" will be realistically defined in terms of actual control and not just in terms of voting-stock ownership—i.e., that ownership of 51 percent of the voting stock will not be the only criterion applied in determining whether or not a company is a subsidiary. Insofar as "dummies" are concerned, proper adherence to the provisions of APB Opinion No. 5 as they relate to indirect control and influence, and a realistic interpretation of such indirect control and influence, would appear to make their creation useless as a means of accomplishing "off-balance-sheet financing."

Disclosure

The disclosure provisions of the Opinion are as follows:

The Board believes that financial statements should disclose sufficient information regarding material, noncancellable leases which are not recorded as assets and liabilities... to enable the reader to assess the effect of lease commitments upon the financial position and results of operations, both present and prospective, of the lessee. Consequently, the financial statements or accompanying notes should disclose the minimum annual rentals under such leases and the period over which the outlays will be made.

In many cases, additional disclosure will be required. The Board believes that rentals for the current year on leases covered by this Opinion should be disclosed if they differ significantly from the minimum rentals under the leases. Type or types of property leased, obligations assumed or guarantees made, and significant provisions of lease agreements (such as restrictions on dividends, debt, or further leasing or unusual options) are examples of other types of information which should also usually be disclosed.

The specific details to be disclosed and the method of disclosure will vary from one situation to another depending upon the circumstances. In many cases, a simple statement will suffice. In more complicated situations, more detailed disclosure will be appropriate. For example, it may be useful to provide a schedule of rentals by years or by three- or five-year periods if annual rentals will fluctuate significantly; or it may be desirable to provide a brief description of the basis for calculating the rental if the amount of rent is dependent upon some factor other than the lapse of time; or it may be necessary to indicate the effect of lease renewals in order to avoid misleading implications.

Thus, the Opinion's disclosure requirements are quite flexible. They cannot be applied by rote. What is appropriate for Company A may be completely inappropriate for Company B. The proper implementation of these provisions requires accountants to exercise a high degree of professional judgment so that the disclosures made are adequate and not misleading. This judgment is limited in only two respects: (1) The amounts of minimum annual rentals must be disclosed and (2) the entire period over which the outlays will be made must be disclosed. In other words, the minimum amounts must always be disclosed, and disclosure of these minimums cannot be limited to only those expected to eventuate during the first five or ten years of a twenty-year lease agreement. This is evident from the statement in the Opinion (emphasis supplied) that: "Consequently, the financial statements or the accompanying notes should disclose the *minimum annual rentals* under such leases and the *period* over which the outlays will be made."

As stated earlier, these provisions apply only to a material noncancellable lease agreement

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EXTRACTS FROM "ABOUT TAXES: 'QUOTABLE' COMMENTS."

Published by Commerce Clearing House, Inc.

"People who squawk about their income taxes may be divided into two classes. They are: men and women."

Anonymous

"Protect the birds. The dove brings peace and the stork brings tax exemptions."

Anonymous

"On the whole, we have been taking our lumps stoicly, knowing full well that this is the lot of the tax collector. Indeed, the Bible offers cases of tax collectors being stoned to death; so in this light, we are not doing too badly."

Sheldon Cohen

the terms of which do not require inclusion of the leased asset and related obligation in a balance sheet. Examples illustrating the provisions are presented in Exhibit 1. As the examples show, only disclosure is required of the fact that the lessee is responsible for maintenance, taxes, and insurance, and of the nature of items such as sales which cause rentals to fluctuate. In other words, the effects of such factors on future rental commitments need not be projected. Thus, the Opinion's provisions recognize the impracticality of forecasting such effects.

As the examples also show, disclosure of the effects of renewal options is required when their exercise could materially affect the data given. Under the Opinion's provisions, disclosure only of the existence of the renewal options is not sufficient. A review of 1965 annual reports, however, indicates that this is the practice generally being followed.

In the examples in Exhibit 1, disclosure is made of the lease commitments in terms of "now" dollars and not in terms of the present value of the rental payments—i.e., excluding an interest factor. This appears to be required by the fact that the Opinion's disclosure provisions do not use the term "present value," whereas the capitalization provisions do. Since in both cases the required payments may span a considerable period of time, the reasons for what appear to be different approaches to the amounts to be disclosed or capitalized when both types of payments include interest factors are unclear. One reason may be that it has not been customary to disclose the total amount of interest which will be paid in connection with debt, but only the interest rate, while it has been customary to disclose the total amount of lease commitments, including any interest inherent therein.

APB Opinion No. 5 does not use the term "aggregate rentals" nor in any way suggest that total rental commitments should be disclosed in one figure. This omission is interesting because the appropriateness of this form of disclosure has been subject to considerable discussion. Some accountants believe that a user of financial statements may be seriously misled by it, because usually an aggregate figure cannot convey an accurate picture on a "going-concern" basis of the status of lease commitments due to the existence of renewal options. Also, some accountants fear that some users may be so surprised by the amount of the single aggregate commitment figure that they will fail to realize or tend to forget that the revenues to pay the commitments may be produced from *leased* assets as well as assets appearing in the balance sheet.

SAMPLE NOTES

Exhibit 1

(NONCAPITALIZED LEASE AGREEMENTS)

SITUATION	NOTE LANGUAGE
Rentals payable in equal amounts over the lease period; no renewal option; lessee not responsible for maintenance, taxes, or insurance.	Annual rentals of $100,000 are payable until 1977 under a noncancellable lease for warehouse facilities.
Same as above, except renewal options exist.	Annual rentals of $100,000 are payable until 1977 under a noncancellable lease for warehouse facilities. This lease may be renewed for two successive five-year periods at the same annual rental.
Rentals payable over different lease periods; lessee responsible for maintenance, taxes, and insurance; minor renewal options exist.	Annual rentals for manufacturing facilities and equipment under noncancellable leases, exclusive of payments for maintenance, taxes, and insurance for which the Company is also responsible, are: $500,000 in 1967-1977; $300,000 in 1978-2007.
Same as above, except additional rentals are due based on sales volume, and disclosure of renewal options is necessary to avoid misleading implications. In addition, the lessee is prohibited from entering into additional lease agreements without the prior consent of its present lessors.	Rental expense under the Company's noncancellable lease agreements covering its retail store locations was $12,000,000. This includes $3,000,000 over the scheduled minimum of $9,000,000 due to the fact that certain of the agreements provide for additional rentals based on sales volume. Future minimum annual rentals under these agreements, exclusive of payments for maintenance, taxes, and insurance, for which the Company is responsible, are: 1967 $9,000,000 1968 8,000,000 1969 7,000,000 1970-1974 6,000,000 1975-1979 5,000,000 1980-1984 4,000,000 1985-1986 3,000,000 All lease agreements contain renewal options. If all such options are exercised, annual commitments under leases in effect at December 31, 1966 will approximate $9,000,000 through 1986 and will decline thereafter at the rate shown in the above tabulation. The Company must obtain the consent of its present lessors before entering into additional lease agreements.

Accounting Trends and Techniques, the only readily available source of such information, reports lease commitment disclosures by lessees in 1965 annual reports (either in the text or in the notes to financial statements) as shown in Exhibit 2. Comparative figures are included for 1963 annual reports to indicate the extent to which these disclosures have changed. With minor exceptions, *Trends* surveys the annual reports of the same companies each year.

However, 1963 figures for obligations assumed or guarantees made were not compiled. This is because an examination of the abovementioned 1965 annual reports revealed that *Trends* did not include thereunder disclosure of the existence of agreements whereby the lessee assumes responsibility for maintenance, taxes, and insurance. These are items to which the same words in Chapter 14 of ARB 43 were interpreted as applying and to which this writer believes the Opinion is intended to apply.

Since some of the increased disclosures in these annual reports resulted from lease agreements entered into subsequent to 1963, it is difficult to estimate the effect that APB Opinion No. 5 has had on disclosure by the surveyed companies of rental commitments under noncancellable lease agreements. In general, however, so far as companies included in the *Trends* tabulation are concerned, its effect does not appear to have been marked, except possibly with regard to increased disclosure of the type or types of property leased and the increased use of schedules to disclose lease commitments. Whether the effect should have been greater is a question which cannot be answered without access to unpublished information.

It is interesting to note from the tabulation, however, that two types of disclosures not specifically mentioned in APB Opinion No. 5 were made in 1965 annual reports: (1) disclosures of aggregate rentals and (2) disclosures of the number of leases in effect. It is also interesting to observe that of the 81 companies which used the term "minimum annual rentals" to describe their commitments, only 28 indicated that their rentals were based upon factors other than the lapse of time.

Exhibit 2

LEASE COMMITMENT DISCLOSURES BY LESSEES

(AS REPORTED IN 1966 EDITION, ACCOUNTING TRENDS AND TECHNIQUES)

ITEMS DISCLOSED	TIMES DISCLOSED 1965	1963
Annual rental amount	141	173
Minimum annual rental amount	81	65*
Aggregate rental amount	18	12
Basis for calculating rent other than time	28	20*
Lease expiration date	56	66
Number of leases	47	41
Renewal or purchase option	46	29
Term of leases	74	63
Schedule of rentals by period of years	31	14*
Type or types of property	81	44*
Obligations assumed or guarantees made	13	__**
Restrictions on dividends, debt, or further leasing	3	2*

*These figures are based upon a separate examination of the 1963 annual reports of companies disclosing such items or using the schedule technique in their 1965 annual reports. These disclosures and use of the schedule technique were for the first time suggested in APB Opinion No. 5. This research was necessary because of the absence of 1963 figures for such items in the 1966 edition of Accounting Trends and Techniques. In an attempt to insure that the 1963 figures would be comparable to the 1965 figures, both the 1963 and 1965 reports of the affected companies (except for five reports which were not readily available) were examined.

**Not compiled.

Sales and leasebacks

APB Opinion No. 5 requires, as did Chapter 14 of ARB 43, that the principal details of any sale-and-leaseback agreement be disclosed in the year in which the transaction originates. It differs from Chapter 14, however, in that it requires, except in rare circumstances, that material gains or losses resulting from such transactions, together with the related tax effect, be amortized over the life of the lease as an adjustment of depreciation. The 1966 edition of *Accounting Trends and Techniques* contains references to several examples of annual reports in which this provision has been applied. The previously discussed capitalization and disclosure provisions of the Opinion also apply to the leaseback aspect of sale-and-leaseback transactions.

Conclusion

Accountants have been concerned for many years with the question of how commitments resulting from lease agreements should be reported in financial statements. The possibility exists that APB Opinion No. 5's capitalization provisions as they relate to lease agreements between nonrelated parties may be amended. Paragraph 18 of APB Opinion No. 7, "Accounting for Leases in Financial Statements of Lessors," states: ". . . There continues to be a question as to whether assets and the related obligations should be reflected in the balance sheet for leases other than those that are in substance installment purchases. The Board will continue to give consideration to this question."

It was upon this portion of APB Opinion No. 5 that attention was focused at the time the Opinion was under discussion. However, until such time as the Opinion is amended, in this or other respects, proper observation of professional standards requires that all of its provisions be observed. It is hoped that this article may provide some assistance in doing so.

OPINIONS OF THE ACCOUNTING PRINCIPLES BOARD

Prominent on the covers of several of the nine *Accounting Research Studies* published by the American Institute of Certified Public Accountants from September, 1961 to the present time is the legend, "This research study is published for discussion purposes. It does not represent the official position of the American Institute of Certified Public Accountants."

Contrary to the Research Studies, departures from *Opinions of the Accounting Principles Board* are required to be disclosed either in footnotes to financial statements or in the audit reports of members of AICPA in their capacity as independent auditors. For this reason the Opinions are relevant to accountants in industry as well as to accountants in public practice.

The Opinions are, in effect, the rules of the game for financial reporting purposes and a basic knowledge of them is a mandatory prerequisite to preparation of or understanding of financial statements currently being issued.

Elsewhere in this issue is a comprehensive discussion of "Reporting of Leases in Financial Statements of Lessee", Number 5, issued in September, 1964.

Reviewed below are the two most current Opinions, "Accounting For Income Taxes," Number 11, and "Omnibus Opinion—1967", Number 12, both issued in December, 1967. As these Opinions are reflected in future financial statements their impact will be important changes in previously used reporting procedures.

"Accounting for Income Taxes," Opinion No. 11 of the Accounting Principles Board, American Institute of Certified Public Accountants, 1967, 33 pages, $.50.

"Accounting for Income Taxes" was approved by the Accounting Principles Board of the AICPA late in December 1967 and represents a significant accomplishment in narrowing the range of generally accepted accounting principles.

Simply speaking, the Opinion deals with recognition of income taxes on all differences between book and tax income. Such differences lead, of course, to the computation of an amount for income taxes payable in any given period which does not necessarily represent the appropriate income tax expense based on pretax accounting income reported in financial statements of the same period.

These book and tax differences stem from the recognition of revenues or expenses in one period for tax purposes but in another for book purposes. The Opinion calls such differences "timing differences."

Probably the most frequent timing difference comes about from the use of accelerated depreciation for tax purposes and straight-line depreciation for book purposes. In the early years of an asset's life, tax expense based on pretax accounting income will exceed tax paid to the Internal Revenue Service. This "excess," called deferred taxes, is a deferred credit until, in the later life of the asset, straight-line depreciation exceeds accelerated depreciation. When this occurs, the process is reversed, and tax expense based on pretax accounting income will be less than the tax liability. At that time, the deferred taxes become taxes payable to the I.R.S.

Another type of timing difference occurs when certain expenses, such as warranties and guarantees, are recognized for accounting purposes when the related products are sold, but claimed as tax deductions only in the period in which paid. In this instance, tax expense based on pretax accounting income will be less than the tax liability based on taxable income. The difference between the two tax amounts is a deferred charge on the balance sheet until the amounts claimed as deductions for tax purposes exceed the amounts recorded as expenses for book purposes.

There are two other types of timing differences which may occur. Revenues can be recognized for books earlier than for taxes. For example, profit on installment sales may be recorded on the books at the date of sale, but may be reported on the tax return when later collected. The fourth type of timing difference arises from reporting revenues earlier for taxes than for financial accounting purposes. Revenues from service contracts are taxed when collected, but deferred until earned for financial accounting purposes.

The Accounting Principles Board in its Opinion No. 11 recognizes that there are at least three schools of thought on the subject of apportioning income taxes among periods, i.e., interperiod tax allocation, which have been adopted in practice. These three methods are discussed briefly in the Opinion, and are followed by a discussion on the extent to which interperiod tax allocation should be applied: partial allocation vs. comprehensive allocation.

The conclusion is reached that "comprehensive interperiod tax allocation is an integral part of the determination of income tax expense. Therefore, income tax expense should include the tax effects of revenue and expense transactions included in the determination of pretax accounting income. The tax effects of those transactions which enter into the determination of pretax accounting income either earlier or later than they become determinants of taxable income should be recognized in the periods in which the differences between pretax accounting income and taxable income arise and in the periods in which the differences reverse."

Discussion is given to the problems of operating losses with their carryback—carryforward provisions and the related pretax accounting income. With carrybacks, the tax effect of the loss carryback can be included in the results of operations of the loss year since realization is assured. While an operating loss carryforward is applicable to the loss year, the future tax benefit of an operating loss carryforward should not be recorded in the accounts during the loss year unless its "realization is assured beyond any reasonable doubt at the time the loss carryforwards arise." Guidelines are included for defining "beyond any reasonable doubt."

The Opinion contains specific directions for the presentation of income taxes in the balance sheet and in the income statement. For example, the income statement (or notes) should analyze total income tax expense into four components:

a. Tax estimated to be payable for the period,
b. Effects of income tax allocation,
c. Effects of investment credit, and
d. Effects of operating losses.

Accounting for income taxes as outlined in this Opinion is effective for fiscal periods beginning after December 31, 1967.

Needless to say, these brief comments do not cover all aspects of the Opinion nor do they deal with some of the exceptions to the Opinion.

This Opinion, containing only 67 paragraphs, is short in length but certainly long in content. It will take several careful readings of those paragraphs to grasp the full impact of their meaning. This opinion deserves serious attention by all accountants.

Marjorie June, CPA
Chicago, Illinois

"Omnibus Opinion—1967," Opinion No. 12 of the Accounting Principles Board, American Institute of Certified Public Accountants, 1967, 9 pages, $.50.

This Opinion, the second of the annual Omnibus Opinions, covers miscellaneous matters which do not seem to justify separate Opinions.

The items included in Omnibus—1967 are summarized as follows:

1. The requirement (established in APB Opinion No. 10) that discount be imputed upon issuance of convertible debt or debt with warrants attached is suspended pending the issuance of a separate Opinion later this year.
2. The compound interest method of computing amortization of bond discount is acceptable.

3. Allowances for losses on receivables and investments and for depreciation, depletion, and amortization should be deducted from the assets to which they relate.
4. Disclosure of depreciable assets and depreciation should include:
   a. Balances of major classes of depreciable assets at the balance sheet date.
   b. Accumulated depreciation at the balance sheet date by major classes of depreciable assets or in total.
   c. Depreciation expense for the period, and
   d. A general description of methods used in computing depreciation with respect to major classes of depreciable assets.
5. Deferred compensation contracts, not considered to be pension plans, are to be accounted for individually on an accrual basis.
6. When financial position and results of operations are presented, disclosure of changes in the separate stockholders' equity accounts—in addition to retained earnings—should be given for the most recent fiscal year.

The first item indicated above is effective immediately; in other respects, this Opinion is effective for fiscal periods beginning after December 31, 1967.

Phyllis E. Peters, CPA
Detroit, Michigan

TWENTY-FIVE YEARS AGO IN THE WOMAN CPA

Undoubtedly you have heard the story about the mouse and the frog who were in a can of milk. The mouse decided nothing could be done, swimming was a tiresome and futile process, and so it gave up and drowned. The frog kept paddling furiously and when the farmer removed the lid at the creamery, there was the frog resting on a little cake of butter.

Most people feel that life has become a bewildering and complex endurance test. The world is frightened. Argument supporting any theory is usually based on fear because knowledge is lacking. This is not only true in advertising but in such fields as politics and economics. The mouse type will say "what's the use". If there are enough of them, the world will be in chaos. But if there are a sufficient number of sturdy, intelligent individuals who will seek out the facts, there will be little islands of stability in each community on which mankind can rest.

Ten years ago, we thought in terms of pre-depression standards and lived in a sort of suspended state waiting for the depression to end and a return of the life we once knew. That suspended state has become more precarious because the depression has paled before the tragedy and horror of a global war. The end of that war is not going to bring the security of which you are longing unless you work for it. It is the fate of this generation to live in one of those periods in history when the forces of reaction battle for supremacy over freedom and progress. It has happened before.

During every onward surge in the story of civilization, man has acquired new tools. These tools bring not only additional comfort and happiness but they carry the power to destroy as well. Science has developed wondrous material benefit but it can destroy cities in a few seconds. The invention of the steam engine in 1769 made it possible to feed and clothe every living person but it also brought slums, and unemployment and spread disease, misery and vice. The tools that were developed in the last one hundred and fifty years of scientific and industrial evolution have affected the lives of all citizens in civilized countries. They have raised living standards in varying degrees but they have brought a host of problems because our mental and moral standards have not kept pace with our technical ability.

From "Inflation and Taxation" by Jane Goode, CPA, April 1943

TAX FORUM

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LIFE INSURANCE AS AN ESTATE PLANNING TOOL

Another tax season is almost past, and, with the bulk of return preparation out of the way, practitioners should once more look to the tax planning phase of their work. At this time of year, it is always wise to review cases and rulings published since January 1, to ascertain if they have any effect on future tax planning.

In the intervening period, too often reading is entirely neglected due to the work load. At best, the practitioner gives only a cursory review to current matters. In this month's Forum, we would like to call particular attention to a ruling that has an effect on past or future tax planning.

Policy Transfers

We refer you to a ruling recently issued by the Internal Revenue Service which will have far-reaching effects within the Estate Planning area. One of the most frequently employed tax planning tools in the past has been the absolute transfer of insurance policies on the life of an individual to his spouse, or other potential beneficiaries.

In the alternative, there has been an outright purchase of such policies in the name of the beneficiaries. Absent all incidents of ownership in the insured, such as the right to borrow, surrender, change beneficiaries, etc., the proceeds of the policies would not be included in his estate, but would be subject to gift tax at the time of purchase or transfer.

Thus, a substantial asset would be eliminated from the estate at a time when the gift tax value was much lower than face value. With proper utilization of the marital deduction, specific exemption and annual exclusions, there would be minimal, if any, gift taxes involved. Even if the gift tax was substantial, it would in all probability be in a lower bracket than the Estate tax, and the Estate would be further reduced by the gift taxes paid.

In many instances, the donor would continue to pay the premiums on the policies, and these payments would constitute taxable gifts. The payment of premiums in the three year period prior to death was always a cause of concern, as such payments might be included in the estate as gifts made in contemplation of death.

New Ruling

The recent Rev. Rul. 67-463, IRB 1967-52, 15 not only has scotched this method of estate planning, but has raised a great many questions in the minds of practitioners. The fact situation that the Treasury Department ruled upon involved the gift of an insurance policy more than three years prior to the date of death, with the continuation of premium payments by the decedent until his death.

The ruling indicated that the premium payments in the last three years were made in contemplation of death; and that the portion of the insurance proceeds attributable to a ratio of the three years' premiums to total premiums paid, was properly includible in the estate. It was also stipulated that the same rule would apply if the policy had been taken out by the ultimate beneficiary, where premiums were paid by the insured.

This ruling was predicated on the theory that the premium payments were not an unrestricted gift of money, severable from the policy, but were annual gifts of insurance protection. As such they represented transfers of interest in the policy which were converted into cash proceeds at the time of death.

Prorated Proceeds

Based on this ruling, it is likely that the Internal Revenue Service will take the position that premiums paid by the insured, within three years of death, are gifts made in contemplation of death. If this contention cannot be overcome, a certain portion of the proceeds will always be included in the insured's estate; and, in the case of a policy that has only been in effect for three years, the entire proceeds will be subject to estate tax.

Annual gifts of cash to the beneficiary to pay the premiums will not necessarily solve the problem. It may be that the Treasury

Department will claim such cash payments are indirect payments of premiums. It would seem, however, that outright cash gifts, utilizing the annual exclusion and marital deduction, with no relationship to the premium payments, may be satisfactory; particularly if an annual gift program of cash payments has been in effect some time prior to the transfer of the policy.

Replanning

From the foregoing, it is obvious that there will have to be a "review of the bidding" concerning possible methods of financing transferred insurance policies, if they are to be excluded from the insured's estate. Certainly the premiums should never be paid by the insured. In instances where the beneficiary has independent income out of which premiums may be paid, and does pay them, no problem exists. In all other cases, planning will have to contemplate such action as is necessary to prevent the imputation of premium payments, directly or indirectly, to the insured.

A transfer of securities and other property, the income from which may be used to finance premiums, is one solution. Under these circumstances, the policy would have to be transferred or purchased for the beneficiary at its inception, when the interpolated terminal reserve (value for gift tax purposes) is low enough to have relatively minor, if any, gift tax consequences. The subsequent utilization of the remaining specific exemption, annual exclusion and marital deduction would then make possible the transfer of property to the new owner sufficient to produce enough income to pay the annual premiums. From a practical point of view, however, it is extremely unlikely that at the time of life when insurance protection is initially sought, the insured will be in a strong enough financial position to carry out this type of program.

An alternative solution would be to borrow on the policy to pay premiums until such time as the insured has property to transfer. This, of course, has the disadvantage of reducing the amount of proceeds payable to the beneficiary. In the event that this course is chosen, the limitations of deductibility of interest paid on the insurance loan under Section 264 of the Internal Revenue Code must be kept in mind. Even if no deduction for the interest is allowed by virtue of that section, it may still pay to adopt this method of financing.

It is doubtful that the transfer of funds by the insured to the beneficiary to pay interest on the insurance loan could result in inclusion of a portion of the proceeds in the insured's estate. The diminution in proceeds available by virtue of the loan would seem to preclude any part of the proceeds being attributable to premiums paid by the insured.

As can be seen from the foregoing, Rev. Rul. 67-463 is of importance in the estate planning field, and steps should be taken to change any situations presently in contravention of the principles set forth therein. If it is not possible to cure existing defects completely, all possible remedial steps should be taken. It then becomes a matter of watching future cases to determine just how stringent the application of these rules will be in any given situation.

FINANCIAL STATEMENTS FOR CHURCHES

A small pamphlet "The Layman's Guide to Preparing Financial Statements for Churches", printed by the American Institute of Certified Public Accountants, 666 Fifth Avenue, New York, New York, may be of more than passing interest to accountants and others charged with the responsibility of financial reporting for churches. As pointed out in the booklet, this is an area of financial reporting which has not received much attention in the past, yet it affects the pocketbooks of a substantial portion of our society.

The Guide is written in clear, simple language and after explaining the characteristics of meaningful financial statements, it proceeds to illustrate the use of budgets, adjusting cash basis statements for unpaid bills, and the format of financial statements.

The author, Malvern J. Gross, Jr., CPA, Price Waterhouse & Co., New York, concludes with advice that the nonaccountant should not hesitate to use his own common sense in preparing meaningful statements tailored to fit the needs of his own church. This bit of advice could profitably be heeded by accountants as well as by nonaccountants.

"Definition of a Taxpayer: A government worker with no vacation, no sick leave, and no holidays."
Anonymous

REVIEWS—Writings in Accounting

PHYLLIS E. PETERS, CPA, Editor
Touche, Ross, Bailey Smart
Detroit, Michigan

"THE EFFECTIVENESS OF ACCOUNTING COMMUNICATION," Abraham J. Briloff, Frederick A. Praeger, Inc., New York, 1967, 400 pages, $17.50.

Surely and skillfully, a myth is exposed and revealed for what it is. The myth? It is this: the accountant, by means of the statements he prepares and to which he attests, effectively communicates financial information to statement users.

Mr. Briloff's book, *The Effectiveness of Accounting Communication,* will cause the reader to think at least twice about many of the more "generally accepted" ideas which accountants, as well as nonaccountants, have of the profession, its objectives, and its accomplishments. For instance, some of the conclusions at which he arrives are these:

> There is serious doubt as to just what is *really* meant by the opinion clause, "present fairly. . . in conformity with generally accepted accounting principles," in the auditor's certificate.
>
> The accounting profession has not yet satisfactorily defined "generally accepted accounting principles"; in fact, major divergencies exist regarding both the accounting principles which now prevail as well as those which should prevail in such areas as: reporting of extraordinary gains or losses, long-term leases, business combinations and consolidations, accounting for pension costs and research and development costs.
>
> There is, in the profession, nothing approaching a consensus regarding the meaning of very basic terms: consistency, disclosure, conservatism.
>
> Financial statements are not responsive to the needs of the users of those statements—such as investment advisers, economists, and government personnel—who must use accounting statements as an important aspect of their decision-making.
>
> There is confusion as to whether corporate management or the independent auditor should determine the applicable accounting principles in a situation where alternatives are possible.
>
> The rendering of management services by accounting firms who concurrently are performing the attest function contributes to the communications gap in financial reporting. Leaders of the profession have failed to recognize that the financial community would be adverse to the extension of such services by these firms.

Equally interesting are his recommendations; among them: that accounting research be centered in the universities rather than in the AICPA and that a foundation be created to support this research; that the profession determine for itself and then make known whether it envisages the objects of its communication to be the public at large or some special segment of it; that the AICPA and the SEC ascertain the kinds of ancillary services now being performed by accounting firms, the circumstances under which they are performed and that the Institute and the SEC define those services deemed to be out-of-bounds for the firm performing the attest function; that a major reappraisal be made of the education of those aspiring to the accounting profession and of the continuing education necessary for practitioners.

Based on Mr. Briloff's doctoral dissertation, the book is well documented and contains substantial evidence in support of the author's contentions. Often a book with an academic origin has limited readership among practitioners. That should definitely not be the case with this book. Overall, it is enjoyable and easy reading, highly interesting, and extremely thought provoking.

Dr. Bernadine Meyer
Duquesne University

"Bringing Accounting into Economic Measurements," Herbert C. Knortz, *FINANCIAL EXECUTIVE,* November 1967, Volume XXXV, Number 11.

Mr. Knortz begins by pointing out that economic progress at the national and business levels has become increasingly complex and interdependent. Because of this increasing complexity and with the expanding opportunities for international activity, all of the professions must join in identifying anew the resources and the goals which will characterize their mutual future.

Beginning with the political economists of Adam Smith's era, governments have been continuously moving toward state-wide planning, but as yet it has been activated in the United States in only a fragmentary way.

Mr. Knortz quotes Adolf Enthoven of the International Finance Corporation who asserts that, "Whether for an individual organization or for a nation, accounting is the coherent assembly of economic data so as to understand the past and plan for the future." The American Institute of Certified Public Accountants has stated in *The Accounting Profession—Where Is It Headed?* that "before economic data can be communicated, it must be measured. The whole process of measurement and communication constitutes the accounting function."

If the accounting profession truly implements its own definition, it will have to take on added responsibility, and Mr. Enthoven believes that the accountant must become more aware of the economic meaning and uses of accountancy than before and must assist in economic analysis and programming. Mr. Enthoven also states that accountancy in the future will extend to the whole economic sphere. Proper accounting information may greatly shape our economic thinking and policies.

The article discusses the data-oriented professions—the economist, the investment analyst, and finally the accountant. The author believes that the accountant must learn to take a more positive approach to basic economic data if he is going to meet the challenge of the future years. Limitations of the current accounting approach are listed and briefly discussed. Also given are a few of the things that can be done in meeting the new challenge. Among the latter are identification of items such as working hours paid for by each corporation and government unit, validation of reported quantities, expanded reporting of economic data, and perodic interpretation of accumulated data.

Mr. Knortz concludes with a brief discussion of the province for accounting progress. The accounting and economic professions must extend their present programs to encompass economic data in a more formal way. Economic information has international significance; it is real; it is comparable. Its accumulation, validation, and reporting are properly the province of the accounting profession. Success in a program of presenting quantitative economic information will constitute a new facet of accounting progress.

Mr. Knortz has stated the challenge to the accounting profession well. It has long been this reviewer's contention that accounting and economics cannot be separated. This article points out ways in which accountants can work more competently for economic development.

Mary E. Burnet, C.P.A.
Rochester Institute of Technology

"*Accounting for Extraordinary Gains and Losses*"; Leopold A. Bernstein, CPA; The Ronald Press Company; 1967, 331 pp; $10.

Perhaps the most interesting aspect of "Accounting for Extraordinary Gains and Losses" is the timing. The book was obviously finished and at the printers in late 1966 when the Accounting Principles Board of the American Institute of Certified Public Accountants issued Opinion 9, entitled "Reporting the Results of Operations", which significantly changed the ground rules for treatment of extraordinary gains and losses.

Fortunately, the author was able to delay final printing long enough to include a short appendix discussing APB 9. Obviously, however, the book suffers from its many references to the prior official pronouncement of AICPA, Accounting Research Bulletin 43.

The book is divided into four sections, plus two appendices. The first section deals with the theory behind the income statement and the various treatments of extraordinary items. The second section discusses what has actually been happening in practice, while the third section suggests means of improvements—the most interesting being the author's suggestion that each year's annual report show a five-year summary of earnings.

The fourth section of the report is a lengthy (almost 90 pages) tabulation of various treatments afforded extraordinary items in the annual reports of 274 companies. These were primarily 1964 annual reports and were selected from approximately 1200 reports reviewed by Mr. Bernstein.

The two appendices deal with a summarization of the historical position of the AICPA regarding the question and the author's analysis of APB 9, particularly as it relates to his study.

Throughout the book, the position of the Securities and Exchange Commission has been included so that the reader is aware of the influence of that regulatory body on report presentation.

P.E.P.

LETTERS TO THE WOMAN CPA

ELAINE CEREGHINI, CPA, Special Editor
Touche, Ross, Bailey & Smart
New York, New York

COLOR OF SPRING

Today I met a friend glowing in a new costume, the color of Spring and with more than a hint of "mod." Her appearance betokened a fresh point of view as well. She even displayed a sense of wittiness, a certain smile long concealed, I suspect. Everyone knows that pedantry is for the mediocre, just as the truly intelligent person is apt to sparkle with humor. How pleasant it is to find an old friend who has retained all of her virtues, then added some lustre, too.

Congratulations on this new woman, the February WOMAN CPA.

Constance T. Barcelona
Cincinnati, Ohio

NEW LOOK

Congratulations on the WOMAN CPA's new look. I was especially pleased to note the material included about the authors. Some of our members, such as Dr. Helene M. A. Ramanauskas, are outstanding in their fields and in their accomplishments and while their articles were printed, there was little said of their present or past positions or mention made of their achievements.

As a reader, I am as interested in the person writing as I am in what she has written. Most professional magazines go to some lengths to give author credits. I am glad the WOMAN CPA is joining the ranks.

Vera Coulter, CPA
North Hollywood, California

DIVERSIFIED ARTICLES

My congratulations for adding this section to the WOMAN CPA. I have often wanted to comment on an article or ask a question and you have now provided the means.

The three major articles in the February issue show how far we have progressed in updating our publication and our personal sights. Dr. Ramanauskas demonstrates why she was invited to present a paper at the Ninth International Congress of Accountants in Paris, France. I do hope she continues to share her thoughts with us.

The Hazel Kienitz article, "Keeping Up With The Joneses", is timely and to our liking. I wonder how many of us knew the background of Dow Jones Averages which have become a daily part of us and of our clients.

Many thanks for an excellent February issue.

Beth M. Thompson, CPA
Miami, Florida

DR. RAMANAUSKAS' ARTICLE

The article by Dr. Helene M. A. Ramanauskas, CPA, "Accounting as a Means of Measuring Productivity", emphasized that the development of management sciences is having an impact on accounting measurements and that there is a trend toward planning and control at a more microscopic level. Developments in managerial accounting have shifted the focus of accounting from the firm as a whole to sub-units within the firm.

The tools to which Dr. Ramanauskas referred: responsibility accounting, work measurement and budgets constructed on the basis of responsibility centers, are results of this trend since they permit development of information at a sub-unit level.

These tools are especially effective in service type organizations to measure productivity.

Mary B. Sommer, CPA
Buffalo, New York

PRODUCTIVITY

The editors are to be congratulated on the professional content of the February issue. Dr. Ramanauskas' article was interesting and provocative, opening up new trends to report on past operations without giving much thought to whether or not his employer or client is really as *productive* as he should be.

The performance efficiency ratios for return on investment are useful tools for measuring not only percentages to sales, the usual percentage data included in income statements, but also for measuring capital productivity. The latter ratios, if computed for several periods of time, should give a clear picture of the direction in which the enterprise is heading.

I look forward to future issues and hope you can keep up the standard set by the February issue.

Elinor Hill, CPA
Riverdale, California